



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Emalahleni Local Municipality
P.O.Box 3
Emalahleni
1035

21 December 2018

Reference:0284REG17/18

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Emalahleni local municipality for the year ended 30 June 2018

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

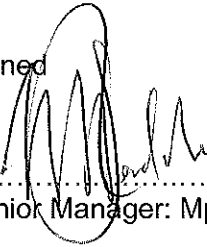
the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, appearing to be 'Blessing Gumede', written over a dotted line.

Senior Manager: Mpumalanga Business Unit

Enquiries: Blessing Gumede
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Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Emalahleni Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Emalahleni Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Emalahleni Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Financial Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Payables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence to support payables from exchange transactions, as the municipality did not have adequate internal controls to maintain records of accounts payable for goods and services received but not yet paid. I was unable to confirm the balance of payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to payables from exchange transactions stated at R3 083 358 861 (2016-17: R2 426 104 574) in the financial statements.

Receivables from exchange transactions

4. The current year movement in the reconciliation of allowance for impairment in note 13 to the financial statements differed from the expensed debt impairment recognised in the statement of financial performance by R98 434 128. Consequently, debt impairment is understated by R98 434 128 (2016-17: R150 318 742) and receivables is overstated by R98 434 128 (2016-17: R150 318 742).

Value-added tax (VAT) receivables

5. I was unable to obtain sufficient appropriate audit evidence to support the VAT receivables amount of R138 377 841, as the municipality did not maintain accurate records of the VAT transactions used to determine VAT receivables. I could not confirm the balance of VAT receivables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to VAT receivables stated at R138 377 841 in the financial statements.

Distribution losses - water

6. I was unable to obtain sufficient appropriate audit evidence to support water distribution losses as disclosed in note 40 to the financial statements, due to the status of the accounting records. I could not confirm the amount of water distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary relating to water distribution losses stated at R136 660 359 (2016-17: R151 854 277) in the financial statements.

Irregular expenditure

7. The municipality did not include irregular expenditure amounting to R110 006 946 in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to payments made in contravention of the supply chain requirements, resulting in the understatement of irregular expenditure by the same amount. In addition, I was unable to obtain sufficient appropriate audit evidence that the municipality had properly disclosed all irregular expenditure, as established internal controls were not effective to identify all irregular expenditure. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment was required to irregular expenditure of R92 216 981 (2016-17: R128 506 971) disclosed in note 56 to the financial statements.

Commitments

8. During 2017, the municipality did not disclose all its commitments as required in terms of GRAP 1, *Presentation of financial statements*. This resulted in an understatement of commitments by R272 899 695, as disclosed in note 47 to the financial statements. My audit opinion on the financial statements for the year ended 30 June 2017 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the commitments for the current period.

Distribution losses – electricity

9. During 2017, I was unable to obtain sufficient appropriate audit evidence for electricity distribution losses and to confirm the electricity distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to electricity distribution losses stated at R353 239 134 in note 40 to the financial statements. My audit opinion on the financial statement for the year ended 30 June 2017 was modified accordingly. My opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the electricity distribution losses for the current period.

Context for the opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
11. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty related to going concern

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.
14. I draw attention to note 53 to the financial statements, which indicates that the municipality incurred a net loss of R386 612 868 during the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R1 217 388 049. As stated in note 53, these events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

16. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material losses – electricity

17. As disclosed in note 40 to the financial statements, material electricity losses of R317 099 737 (2016-17: R353 239 134) were incurred, which represented 35,71% (2016-17: 42,89%) of the total electricity purchased.

Material impairment

18. As disclosed in note 13 to the financial statements, the receivables balance was significantly impaired. The total impairment of consumer debtors amounted to R1 562 012 628 (2016-17: R931 790 933), which represented 46% (2016-17: 37%) of the total consumer debtors. The contribution to the provision for debt impairment was R531 787 567 (2016-17: R385 117 286).

Unauthorised expenditure

19. As disclosed in note 54 to the financial statements, unauthorised expenditure of R638 386 008 incurred in previous years was still awaiting authorisation. Furthermore, unauthorised expenditure of R222 041 583 was incurred in the current financial year.

Fruitless and wasteful expenditure

20. As disclosed in note 55 to the financial statements, fruitless and wasteful expenditure of R296 573 106 incurred in previous years was still awaiting condonement. Furthermore, fruitless and wasteful expenditure of R110 173 183 was incurred in the current financial year.

Other matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

22. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

24. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

25. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
26. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
28. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
29. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
Development priority 2 – service delivery and infrastructure development	xx – xx

30. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
31. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development priority 2 – service delivery and infrastructure development

% of graves dug and burials conducted

32. The indicator approved in the service delivery and budget implementation plan was '% of graves dug'. However, the indicator reported in the annual performance report was '% of graves dug and burials conducted'.

Intervals for Maintenance of Municipal Lifts to ensure regular access to people with disabilities & safety

33. The planned indicator was 'the maintenance of municipal lifts', but the planned target and reported achievement referred to 'the maintenance of air conditioners'.
34. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

No.	Performance indicator	Reported in the annual performance report
1.	% of Planned Activities Undertaken in Implementing the 2017/18 buildings maintenance plan, as well as per requests from departments	10% (6/60) of the 2017/18 maintenance plan was implemented
2.	Intervals for Maintenance of Municipal Lifts to ensure regular access to people with disabilities & safety (KPI 118)	11x maintenance of air conditioner was conducted (Replace motors for all air conditioners)
3.	Blesboklaagte cemetery completed	Phase 1 was completed November 2017. A progress report was sent to Council – see Council Resolution B.029/18 (20 Febr 2018) A memo was sent to PMU on 7 February 2018 requesting MIG funds to complete Phase 2 of Blesboklaagte Cemetery.

35. The reported achievements for the targets were misstated, as the evidence provided did not agree with the reported achievements as follows:

No.	Performance indicator	Reported achievement	Audited value	Misstatement occurrence rate
1.	Number of Bulk potable water litres purchased through Anglo, Eskom and package plant	6130.659ML	9281ML	51%
2.	Number of traffic calming measures installed/constructed.	33	27	18%
3.	% of graves dug and burials conducted	100%(2061) of burials took place in 2017/18 financial year	50%(1031/2061) of burial took place in the 2017/18 financial year	50%
4.	Number of metres of sewer line constructed at Empumelelweni	38 083m	29 506m	23%

Other matter

36. I draw attention to the matter below.

Achievement of planned targets

37. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 32 to 35 of this report.

Report on the audit of compliance with legislation

Introduction and scope

38. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

39. The material findings on compliance with specific matters in key legislation are as follows:

Procurement and contract management

40. Some invitations for competitive bidding were not advertised for the required minimum period, in contravention of supply chain management (SCM) regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
41. Some contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
42. The preference point system was not applied to some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000). Similar non-compliance was also reported in the prior year.
43. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Annual financial statements, performance report and annual report

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and liabilities identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM prescripts.
47. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R110 173 183, as disclosed in note 55 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on Eskom accounts.
48. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R222 041 583, as disclosed in note 54 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending in various votes within the municipality, including community services and waste water management.

Revenue management

49. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

Liability management

50. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Asset management

51. Capital assets were permanently disposed of without the approval of the council, as required by section 14(2)(a) of the MFMA.

Consequence management

52. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
53. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

54. The accounting officer is responsible for the other information. The other information does not include the financial statements, the auditor's report thereon and the selected development priority presented in the annual performance report that has been specifically reported in the auditor's report.
55. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
56. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
57. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that it contains any material misstatements, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, this will not be necessary if it is corrected.

Internal control deficiencies

58. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
59. The leadership of the municipality did not effectively monitor the implementation of corrective measures put in place to improve the control environment.
60. The municipality did not have key controls to address the systems of collecting, collating, verifying and storing performance information. Standard operating procedures for performance reporting were also not effectively implemented to support reliable performance information.
61. Adequate monitoring controls were not implemented by management to prevent errors in the accounting and management records.
62. Regular reviews and reconciliations were not performed to detect and correct errors in a timely manner.
63. An effective record-keeping system was not in place to ensure that information was retrieved within a reasonable time and that the financial statements and performance reports were supported by valid and accurate documents.
64. Management did not adequately review and monitor compliance with applicable laws and regulations.

Auditor-General

Mbombela

21 December 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

